
MANITOBA DEVELOPMENT CORPORATION

Annual Report
March 2000



Manitoba

Manitoba Development Corporation

Financial Statements
March 31, 2000



Manitoba



**MINISTER OF
INDUSTRY, TRADE AND MINES**

WINNIPEG, MANITOBA, CANADA
R3C 0V8

His Honour
The Honourable Peter M. Liba, C.M.
Lieutenant Governor of Manitoba
Room 235 Legislative Building
Winnipeg MB R3C 0V8

Your Honour:

I am pleased to present the Annual Report for the Manitoba Development Corporation
for the fiscal year ending March 31, 2000.

Respectfully submitted,

Mary Ann Mihychuk
Minister



Our Past. Our Future. Our Collaborations.
Never passed. Never over. Never far.

Manitoba



Manitoba Development Corporation
555 - 155 Carlton Street
Phone: (204) 945-0141
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Winnipeg Manitoba, CANADA
R3C 3H8

August 17, 2000

Honourable MaryAnn Mihychuk
Minister of Industry, Trade and Mines
Room 358 Legislative Building
Winnipeg MB R3C 0V8

Dear Minister Mihychuk:

It is our pleasure to submit the Annual Report of the Manitoba Development Corporation for the fiscal year ended March 31, 2000, as required by Section 44 of the Development Corporation Act.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "H. Eliasson".

Hugh Eliasson
Chairperson

PricewaterhouseCoopers LLP
Chartered Accountants
One Lombard Place
Suite 2300
Winnipeg Manitoba
Canada R3B 0X6
Telephone +1 (204) 926 2400
Facsimile +1 (204) 944 1020

June 16, 2000

Auditors' Report

**To the Directors of
Manitoba Development Corporation**

We have audited the balance sheet of **Manitoba Development Corporation** as at March 31, 2000 and the statements of income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2000 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants



June 16, 2000

THE MANITOBA DEVELOPMENT CORPORATION MANAGEMENT REPORT

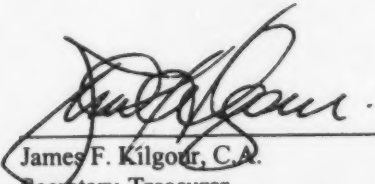
The accompanying financial statements are the responsibility of management and have been prepared in conformity with the generally accepted accounting principles. The statements are examined by Pricewaterhouse Coopers, Chartered Accountants, whose opinion is included herein.

To fulfil this responsibility, management maintains internal control systems to provide reasonable assurance that the accounts and records accurately reflect all transactions and that appropriate policies and procedures are established and respected.

Pricewaterhouse Coopers have free access to the Board of Directors, with and without management present, to discuss the results of their audit and the quality of financial reporting to the Board.



Ian Robertson
General Manager



James F. Kilgour, C.A.
Secretary-Treasurer

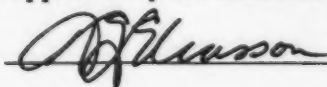
Manitoba Development Corporation

Balance Sheet

As at March 31, 2000

	2000 \$	1999 \$
Assets		
Current assets		
Cash	228,345	125,497
Term deposits – Province of Manitoba	3,173,840	3,134,825
Accounts receivable – Province of Manitoba	380,744	149,716
Accounts receivable – Other	5,693	-
	<u>3,788,622</u>	<u>3,410,038</u>
Long-term investments		
Loans receivable – made prior to 1977	-	276,094
Assets managed for the Province of Manitoba under Part II		
Cash on hand held in trust	858,324	2,126,570
Accounts receivable (note 2)	583,454	97,826
Loans receivable (note 3)	43,727,044	60,687,452
Equity investments (note 4)	2,504,014	1,032,674
	<u>47,672,836</u>	<u>63,944,522</u>
	<u>51,461,458</u>	<u>67,630,654</u>
Liabilities and Equity		
Current liabilities		
Accounts payable – Part I	222,531	227,614
Long-term liabilities		
Accrued pension liabilities	547,250	603,856
Funds provided by the Province of Manitoba under Part II	<u>47,672,836</u>	<u>63,944,522</u>
	<u>48,442,617</u>	<u>64,775,992</u>
Equity (note 5)	<u>3,018,841</u>	<u>2,854,662</u>
	<u>51,461,458</u>	<u>67,630,654</u>

Approved by the Board of Directors



Director



Director

PRICEWATERHOUSECOOPERS 

Manitoba Development Corporation

Statement of Income and Retained Earnings

For the year ended March 31, 2000

	2000 \$	1999 \$
Income from Part I		
Interest	217,447	217,312
Reduction in provision for divestiture	-	50,000
Cost recoveries	943	2,266
	<u>218,390</u>	<u>269,578</u>
Income from Part II		
Interest – loans receivable	2,693,912	1,885,634
Pro-rata share of partnership earnings	1,566,443	1,184,481
Recovery of Part II expenses from the Province of Manitoba		
Allowance for loan forgiveness	1,832,855	4,907,376
Allowance for doubtful accounts	24,490,038	4,794,878
Provision for decline in value of investments	-	2,617,658
	<u>30,583,248</u>	<u>15,390,027</u>
	<u>30,801,638</u>	<u>15,659,605</u>
Expenses under Part I		
Administration	62,338	42,527
Pension benefit costs	(8,127)	48,372
	<u>54,211</u>	<u>90,899</u>
Expenses under Part II		
Allowance for loan forgiveness	1,832,855	4,907,376
Allowance for doubtful accounts	24,490,038	4,794,878
Provision for decline in value of investments	-	2,617,658
Repayment of Part II income to the Province of Manitoba		
Interest on loans receivable	2,693,912	1,885,634
Provision for repayment of pro-rata share of partnership earnings	1,566,443	1,184,481
	<u>30,583,248</u>	<u>15,390,027</u>
	<u>30,637,459</u>	<u>15,480,926</u>
Net income for the year	164,179	178,679
Retained earnings – Beginning of year (note 5)	<u>2,563,236</u>	<u>2,384,557</u>
Retained earnings – End of year (note 5)	<u>2,727,415</u>	<u>2,563,236</u>

Manitoba Development Corporation

Statement of Cash Flows

For the year ended March 31, 2000

	2000 \$	1999 \$
Provided by (used in) Part I activities		
Operating activities		
Net income for the year	164,179	178,679
Adjustments to reconcile net income to net cash flow from operating activities		
Loss on disposal of capital assets	-	1,343
Reduction in provision for divestiture	-	(50,000)
Changes in operating assets and liabilities		
Accounts receivable		
Province of Manitoba	(231,028)	(149,716)
Other	(5,693)	-
Accounts payable	(5,083)	52,350
Accrued pension liabilities	(56,606)	256
	(134,231)	32,912
Investing activity		
Loan principal repayments	276,094	128,066
Net cash flow from Part I activities, carried forward	141,863	160,978

Manitoba Development Corporation

Statement of Cash Flows ...continued

For the year ended March 31, 2000

	2000 \$	1999 \$
Net cash flow from Part I activities, brought forward	141,863	160,978
Provided by (used in) Part II activities		
Loans receivable		
Principal repayments	9,216,966	14,069,517
Loans issued	(17,843,065)	(20,640,000)
Increase in accrued interest receivable	(736,386)	(740,821)
	(9,362,485)	(7,311,304)
Equity investments		
Investments made	(68,750)	(390,000)
Redemptions	163,853	45,146
	95,103	(344,854)
	(9,267,382)	(7,656,158)
Decrease (increase) in cash on hand held in trust	1,268,246	(117,815)
Decrease (increase) in accounts receivable	(485,628)	79,832
Funds provided by the Province of Manitoba	8,484,764	7,694,141
Net cash flow from Part II activities	-	-
Net increase in cash balance during the year	141,863	160,978
Cash balance – Beginning of year	3,260,322	3,099,344
Cash balance – End of year	3,402,185	3,260,322
Cash balance consists of the following		
Cash on hand	228,345	125,497
Term deposits – Province of Manitoba	3,173,840	3,134,825
	3,402,185	3,260,322

Manitoba Development Corporation

Notes to Financial Statements

March 31, 2000

1 Significant accounting policies

Nature of operations and economic dependence

The Manitoba Development Corporation ("the Corporation") provides loans and guarantees under Part I and Part II of the Development Corporation Act. The activities under Part I and Part II are accounted for separately. Part I activities are undertaken at the initiative of the Corporation, while Part II activities are at the direction of the Province of Manitoba. The Corporation's lending operations under Part I were suspended effective November 15, 1977 except at the direction of the Province of Manitoba.

Equity investments under Part II

The Corporation's equity investments related to share capital investments are recorded at cost. The Corporation's investments in the Vision Capital Fund, the Manitoba Capital Fund and the Manitoba Science and Technology Fund are accounted for using the equity method of accounting. These investments were originally recorded at cost and the carrying value is adjusted thereafter to include the Corporation's pro rata share of post acquisition earnings for these investments. Such adjustments are correspondingly reflected in the balance sheet caption "Funds provided by the Province of Manitoba under Part II."

Pension Plan

Past employees of the Corporation were not members of the Civil Service of the Province of Manitoba but they contributed to, and are pensionable under the Civil Service Superannuation Fund. In accordance with the provision of the Manitoba Civil Service Superannuation Act, the Corporation contributes 50% of the pension paid to retired employees. The current pension expense is determined on the basis of an actuarial valuation. Payments to pensioners are charged against the liability account.

Operating losses

Losses under Part I and under Part II of the Corporation are the responsibility of the Province and are charged directly against advances received from the Province.

Cash

For the purpose of the statement of cash flows, cash includes cash and term deposits with the Province of Manitoba with maturities of up to three months.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimated.

Manitoba Development Corporation

Notes to Financial Statements

March 31, 2000

2 Accounts receivable managed for the Province of Manitoba under Part II

The accounts receivable represent balances outstanding for interest, capital repayments or fees incurred by the Corporation on behalf of the following programs:

	2000 \$	1999 \$
Manitoba Industrial Opportunities Program	450,000	-
Manitoba Capital Fund	133,454	97,826
	<u>583,454</u>	<u>97,826</u>

3 Loans receivable managed for the Province of Manitoba under Part II

	2000 \$	1999 \$
Business support		
Manitoba Industrial Opportunities Program	70,533,704	60,870,517
Manufacturing Adaptation Program	152,083	354,377
Canada - Manitoba Economic Development Partnership	1,665,811	1,500,000
	<u>72,351,598</u>	<u>62,724,894</u>
Other loans receivable		
Canada/Manitoba Tourism Agreement	91,858	124,766
Destination Manitoba	-	12,675
Vision Capital Fund	25,771,192	25,773,029
Crocus Foods (1996) Limited	376,990	370,337
Manitoba Film and Sound	400,000	524,102
Related to sale of Linnet Geomatics International Inc.	296,461	395,811
	<u>26,936,501</u>	<u>27,200,720</u>
	<u>99,288,099</u>	<u>89,925,614</u>
Less: Allowance for forgiveness	13,213,491	11,380,636
Allowance for doubtful accounts	42,347,564	17,857,526
	<u>55,561,055</u>	<u>29,238,162</u>
	<u>43,727,044</u>	<u>60,687,452</u>

The Vision Capital Fund loans receivable accrue interest at rates of 5% - 10.25% per annum and are secured by a debenture on all assets of the Fund. The interest accumulates in the Fund and is payable along with any outstanding loan advances on December 31, 2001.

Manitoba Development Corporation

Notes to Financial Statements

March 31, 2000

4 Equity investments managed for the Province of Manitoba under Part II

	2000 \$	1999 \$
Share capital investments		
Class A voting shares of A. E. McKenzie Co. Ltd.	-	261,870
Class M preferred shares of A. E. McKenzie Co. Ltd.	54	54
Common shares of Crocus Foods (1996) Limited	75	75
Class C preferred shares of C.A.R.E. Corp.	684,270	800,000
	<u>684,399</u>	<u>1,061,999</u>
Less: Allowance for forgiveness of shares	<u>(684,399)</u>	<u>(1,061,999)</u>
	-	-
Limited Partnership Investments		
Vision Capital Fund	813,521	977,374
Manitoba Capital Fund	4,363,200	4,363,200
Manitoba Science and Technology Fund	68,750	-
	<u>5,245,471</u>	<u>5,340,574</u>
Less: Provision for decline in value of investments	4,632,658	4,632,658
Pro rata share of partnership earnings	<u>(1,891,201)</u>	<u>(324,758)</u>
	<u>2,741,457</u>	<u>4,307,900</u>
	<u>2,504,014</u>	<u>1,032,674</u>

On December 20, 1994, the Province of Manitoba entered into an agreement to sell the assets of A. E. McKenzie Co. Ltd. As part of the sale, the Corporation purchased 102 Class M preferred shares of the purchaser and 213,675 Class A voting shares of the purchaser's parent for \$102 and \$500,000 respectively. The Corporation has agreed that the Class A voting shares would be dealt with in accordance with the asset purchase agreement. That agreement states that employees of A. E. McKenzie Co. Ltd. may qualify to obtain those shares by continuous employment with the purchaser or its affiliates until January 1, 2000 with provisions for early distribution in case of retirement or death. During the year, the Corporation redeemed all of the outstanding Class A voting shares for \$261,870 (1999 - 381 shares for \$3,248) as instructed by A. E. McKenzie Co. Ltd.

On November 1, 1996 the Corporation incorporated a new subsidiary company, Crocus Foods (1996) Limited ("Crocus"), to acquire 100% of the assets of Crocus Foods Ltd., a fresh vegetable processing plant in Southport, Manitoba that was petitioned into bankruptcy by its previous owners. The purpose of this acquisition was to ensure the plant did not close and that jobs were maintained. Total share capital of Crocus consists of 100 common shares with a total paid up capital of \$100. On June 1, 1997, the Corporation agreed to transfer up to 75 shares of Crocus to the management of Crocus, subject to certain terms and conditions. Subsequently, the Corporation transferred 25 common shares of Crocus to management under the terms of this agreement. Crocus has been accounted for as a temporary investment instead of on a fully consolidated basis.

Manitoba Development Corporation

Notes to Financial Statements

March 31, 2000

The Corporation holds 684,270 (1999 – 800,000) Class C non-voting preferred shares of C.A.R.E. Corp. The preferred shares are cancellable on an annual basis at the rate of \$10,000 for every job held at C.A.R.E. Corp., commencing February 1999. During the year, the Corporation cancelled 115,730 of these shares (1999 – nil). Consistent with the treatment of other similar share capital investments managed for the Province of Manitoba under Part II, an allowance for forgiveness of shares has been taken to fully provide for the amount of the investment at the time of acquisition.

5 Equity

	2000 \$	1999 \$
Share capital, authorized and issued 100 shares at \$10 per share	1,000	1,000
Surplus arising from share capital restructuring	290,426	290,426
Retained earnings	2,727,415	2,563,236
	<u>3,018,841</u>	<u>2,854,662</u>

6 Contingent liability and commitments

During the year the Corporation guaranteed a bank loan in the amount of \$500,000 in regard to one of the Manitoba Industrial Opportunities Program investments. As at March 31, 2000, the bank loan outstanding against the guarantee totalled \$311,889.

Commitments and undisbursed balances of approved loans under Part II

	2000 \$	1999 \$
Manitoba Industrial Opportunities Program	17,396,845	17,174,000
Canada – Manitoba Economic Development Partnership	1,734,189	-
Manitoba Science & Technology Fund	2,425,250	-
Renaissance Fund	3,000,000	-
Vision Capital Fund	2,681,013	5,571,013
Manitoba Capital Fund	636,800	636,800
	<u>27,874,097</u>	<u>23,381,813</u>

Manitoba Development Corporation

Notes to Financial Statements

March 31, 2000

7 Financial instruments

The carrying amounts of short-term financial assets and liabilities are a reasonable estimate of the fair value because of the short maturity of those instruments.

The financial risk is the risk to the Corporation's Part I earnings that arise from fluctuations in interest rates and the degree of volatility of these rates. Because Part II activities are directed by the Province of Manitoba, any exposure for these financial assets and liabilities to interest rate fluctuations or changes to their fair value would be borne by the Province. Credit risk relating to the realization of assets managed for the Province of Manitoba under Part II is borne by the Province.

8 Comparative figures

Certain comparative figures have been restated to conform to the current year's presentation.